

February 4, 2009

Re: DE 07-013, Unitil Energy Systems, Inc.
Default Service
2006 Lead/Lag Study

To the Parties:

By Order No. 24,735 (March 26, 2007), Staff was directed to investigate the 2006 lead/lag study filed by Unitil Energy Systems, Inc. (UES) to support its cash working capital request and file a report regarding the results of its investigation prior to November 1, 2007. Docket No. DE 07-059, opened for the purpose of conducting the investigation, was subsequently closed as the investigation continued in the instant proceeding.

On November 12, 2008, Staff filed its report in which it concluded that the methodology used by UES to develop its lead/lag study is sound and the resulting net lags for the G1 and non-G1 customer groups are calculated correctly. Staff could not conclude, however, that the lags are reasonable given that UES experienced an average net lag of 13 days for 2006 which compared unfavorably with the average net lag of less than 2 days for National Grid. Staff's initial investigation indicates that this difference is due to longer expense leads for National Grid than for UES. Staff recommended that UES be authorized to calculate its cash working capital requirements based on the 2006 lead/lag study appropriately adjusted for the expense lead associated with the collection of monies to comply with the Electric Renewable Portfolio Standard-related alternative compliance payments contained in RSA 362-F. In addition, Staff recommended that UES be allowed to use the results of the 2006 lead/lag study beginning November 1, 2007.

On December 24, 2008, UES filed a response to Staff's November 12th report in which UES argued that, inasmuch as Staff's report concluded that UES' methodology is sound and the data appropriately calculated, there is no basis to establish November 1, 2007 as the beginning date for reconciliation of default service costs associated with the use of the 2006 lead/lag study. Rather, UES noted that it had filed its lead/lag study on March 16, 2007 for effect on May 1, 2007 and requested the Commission allow UES to reconcile its default service costs beginning May 1, 2007. UES further objected to Staff's suggestion that UES' business practices as they relate to collection of revenues and/or payment of expenses are "inferior to those of National Grid." On December 30, 2008, Staff responded that it does not oppose UES' request for an effective date of May 1, 2007.

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The Commission has determined that it is appropriate for UES to use the 2006 lead/lag study, as modified by the expense lead associated with compliance with RSA 362-F, to reconcile its default service costs beginning May 1, 2007 until a final determination is made on UES' business practices implicated by the study.

Sincerely,

Debra A. Howland
Executive Director